ELKO GRUPA JSC

Unaudited Consolidated Interim Financial Statements

For 6 months ended 30 June 2008

Management report

Business activities

AS ELKO GRUPA (hereinafter – the Company) is one of the largest distributors of IT products in the Baltic states, Central and Eastern Europe. Our core business activity is wholesale distribution of computer desktop components and peripherals, notebooks, monitors, multimedia and software products, server, network component and networking solutions, using the wide network of the ELKO GRUPA subsidiaries and cooperation partners, representing a broad range of vendors of these products all over the world, including Acer, Intel , Samsung, Sony and Western Digital.

The key to the success of AS ELKO GRUPA as the parent company is the long-term strategy for cooperation with vendors developed over the years, centralized purchase system, functionality of business process management and financial management.

Financial analysis

AS ELKO GRUPA sales for the first half of year of 2008 reached 555,6 million USD (253,8 million LVL), rising 49% from first half of 2007, however due to weakening of US dollar the real growth in Latvian lats was 29%. Gross profit for the year reached 26,5 million USD (12,1 million LVL) that is a growth by 12,2 million USD (the real growth in Latvian lats constituted 4,5 million LVL).

AS ELKO GRUPA profit after taxes reached 14,8 million USD (6,5 million LVL) that is growth by 136% comparing to first half of 2007 however due to weakening of US dollar the real growth in lats constituted 95,9%. The Company’s profitability ratio in 2008 was 2,6%.

The main reason for the increase in net results is the Company’s ability to continue strong growth in CIS markets that resulted in increase of sales in CIS countries by 165 million USD (that is 61% increase comparing to first half of 2007)

Significant events during reporting period

In June 2008 the Company has become the official distributor of Micro-Star Internation and Tom Tom product wholesaler in Baltic states.

In May 2008 the Company listed its bonds in amount of 6,5 million EUR in Riga stock exchange.

During 2008 the Company finalized the set up of unified Baltic structure that resulted in creation of one central Baltic warehouse with location in Latvia.

AS ELKO GRUPA structure

AS ELKO GRUPA has ten subsidiaries: SIA ELKO Latvija, ELKO Kaunas UAB, ELKOTECH d.o.o., ELKO Eesti AS, ELKOTech Romania SA, WESTech s.r.o., ELKOTEX d.o.o., ELKO Trading Switzerland A.G., Elko Marketing Ltd. and Statex Consulting Ltd. In 2007 the subsidiary Statex Consulting Ltd acquired 100% of shares of the subsidiary Alma Ltd. AS ELKO GRUPA has full or partial ownership of the subsidiaries. Where AS ELKO GRUPA is not the sole shareholder, it holds the controlling interest.

Management report (cont'd)
Financial risk management

Multi-currency risk
AS ELKO GRUPA operates internationally and is exposed to foreign exchange risk arising from primarily with respect to the US dollar and the euro. Foreign exchange risk arises from multi-currency futures through recognition of assets and liabilities and accounting for long-term investments.

The purchase of goods from vendors is predominantly done in the US dollars. The sales from the Company to subsidiaries are done in the US dollars. The sales to customers in Latvia and Estonia are carried out in the respective local currencies, which are pegged to the euro.

The Company has investments in foreign currencies and is therefore exposed to foreign currency risk when financial assets and liabilities denominated in foreign currencies are translated into the presentation currency – the Latvian lats. The Company does not have any hedging agreements.

Interest rate risk
AS ELKO GRUPA uses current borrowing for financing part of its current assets which exposes us to interest rate risk. All the borrowings are at floating rate.

Credit risk
Credit risk arises from the credit exposure to outstanding trade receivables. AS ELKO GRUPA implements procedures and control mechanisms to manage credit risk. Credit risk is partly minimized through credit risk insurance that the Company started using in August 2006 and conservative credit monitoring policies. Individual risk limits are set based on internal or external ratings in accordance with the credit policy. The utilisation of credit limits is regularly monitored.

Inventories
AS ELKO GRUPA determines the amount of inventories based on the expected future demand and market saturation. Any changes in the demand and/ or rapid obsolescence of the products or technological changes will result in excess stock and accumulation of obsolete items. The Company makes centralized plans for purchase and sale of the products and the procedures for ordering of the goods help to decrease the inventory days. Weekly inventory analysis eliminates the need to establish provisions for obsolete items.
The risk related to product flow management is partially reduced through price protection arrangements under the cooperation agreements with major vendors. The agreements provide for compensation for the price reduction in case of decline of the market prices for the goods at the Company's warehouse.

Liquidity risk
Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities. In future the Company's management plans to increase the liquidity reserve based on the expected cash flows.

Management report (cont'd)

Prospects

Our performance is and will be influenced by macroeconomic, market and political situation and developments in Latvia and other countries where the Company has cooperation partners. The demand in all three geographic regions where the Company operates has increased against the background of comparatively low use of computers, becoming one of the key factors driving the Company's growth. Other factors include inflow of the EU structural funds and increase in local productivity of the Baltic and Eastern European companies, high oil prices and growing cost of other natural resources as well as reforms in the government sector in the CIS region.

We hope that the above-mentioned factors will help to sustain growth also in the coming years, ensuring positive results of our operations.

The financial performance of the Company during second half of 2008 depends on the amount of the additional funds the Company's will obtain for financing the working capital.

Events after balance sheet date

Since the last day of the reporting year until the date of signing these financial statements, there have been no events that would have material effect on the result of the reporting year.

Egons Mednis

Chairman of the Board,
Prezident

Riga, 15 August 2008

Statement of Management's Responsibilities

Un-audited consolidated financial statements are prepared to the best on our knowledge in accordance with International Financial Reporting Standards as adopted by EU. These un-audited financial statements give a true and fair view of the state of affairs of the Group and of the results of the Group for the period ended 30 June 2008 in all material aspects. In preparing those financial statements, management:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards as adopted by EU. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Egons Mednis
Chairman of the Management Board
JSC *ELKO GRUPA*
Riga, Latvia
August 15, 2008

Structure

Page

Consolidated balance sheet

	Note	30.06.2008	31.12.2007
ASSETS			
Non-current assets			
Property, plant and equipment		677	534
Intangible assets		124	115
Deferred income tax assets		13	13
		814	**662**
Current assets			
Inventories		113,686	68,911
Current income tax receivable		201	39
Trade and other receivables		68,953	101,523
Cash and cash equivalents		2,541	2,500
		185,381	**172,973**
Total assets		**186,195**	**173,635**

	Note	30.06.2008	31.12.2007
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	3	6,877	6,877
Share premium	3	3,496	3,496
Translation reserve		(968)	(2,727)
Retained earnings		33,011	33,537
		42,416	**41,183**
Minority interest in equity		**2,119**	**1,943**
Total equity		**44,535**	**43,126**
LIABILITIES			
Non-current liabilities			
Borrowings	4	4,773	4,699
Deferred income tax liabilities		11	11
		4,784	**4,710**
Current liabilities			
Trade and other payables		99,583	81,963
Current income tax liabilities	5	20	1,306
Borrowings	4	37,037	42,419
Provisions		236	111
		136,876	**125,799**
Total liabilities		**141,660**	**130,509**
Total equity and liabilities		**186,195**	**173,635**

The notes on pages 7 to 9 are an integral part of these consolidated financial statements.

Egons Mednis
Prezident

Consolidated income statement

	Note	Jan-Jun 2008	Jan-Jun 2007
Revenue	2	253,809	196,911
Cost of sales		(241,648)	(189,355)
Gross profit		**12,161**	**7,556**
Distribution costs		(1,016)	(800)
Administrative expenses		(4,062)	(2,924)
Other income		725	662
Other expenses		(285)	(669)
Operating profit		**7,523**	**3,825**
Finance income		1,101	807
Finance costs		(1,714)	(956)
Finance income/ (costs) – net		**(613)**	**(149)**
Profit before income tax		**6,910**	**3,676**
Income tax expense	5	(437)	(371)
Profit for the year		**6,473**	**3,305**
Attributable to:			
Equity holders of the Company		6,207	2,972
Minority interest		266	333
		6,473	**3,305**
Earnings per share (basic and diluted) for profit attributable to the equity holders of the Company during the year (expressed in LVL per share)	6	**0.90**	**0.43**

The notes on pages 7 to 9 are an integral part of these consolidated financial statements.

Egons Mednis
Prezident

Consolidated statement of changes in equity

		Share capital	Share premium	Translation reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2006		**6,877**	**3,496**	**49**	**11,571**	**21,993**	**1,051**	**23,044**
Currency translation differences		-	-	(1,227)	-	(1,227)	81	(1,146)
Profit for the year		-	-	-	13,979	13,979	380	14,359
Total recognized income and expense for 2006		**-**	**-**	**(1,227)**	**13,979**	**12,752**	**461**	**13,213**
Dividend relating to 2005	9	-	-	-	(2,092)	(2,092)	-	(2,092)
Balance at 31 December 2006		**6,877**	**3,496**	**(1,178)**	**23,458**	**32,653**	**1,512**	**34,165**
Balance at 1 January 2007		**6,877**	**3,496**	**(1,178)**	**23,458**	**32,653**	**1,512**	**34,165**
Currency translation differences		-	-	(1,549)	-	(1,549)	(8)	(1,557)
Profit for the year		-	-	-	15,727	15,727	684	16,411
Total recognized income and expense for 2007		**-**	**-**	**(1,549)**	**15,727**	**14,178**	**676**	**14,854**
Dividend relating to 2006	9	-	-	-	(5,648)	(5,648)	(245)	(5,893)
Balance at 31 December 2007		**6,877**	**3,496**	**(2,727)**	**33,537**	**41,183**	**1,943**	**43,126**
Balance at 1 January 2008		**6,877**	**3,496**	**(2,727)**	**33,537**	**41,183**	**1,943**	**43,126**
Currency translation differences		-	-	1,759	(2,928)	(1,169)	(90)	(1,259)
Profit for the period		-	-	-	5,402	5,402	266	5,668
Total recognized income and expense for 2008		**-**	**-**	**1,759**	**2,474**	**4,233**	**176**	**4,409**
Dividend relating to 2007	9	-	-	-	(3,000)	(3,000)	-	(3,000)
Balance at 30 June 2008		**6,877**	**3,496**	**(968)**	**33,011**	**42,416**	**2,119**	**44,535**

The notes on pages 7 to 9 are an integral part of these consolidated financial statements.

Consolidated cash flows statement

	Note	30.06.2008	31.12.2007
Cash flows from operating activities			
Cash used in operations		8,516	(6,367)
Interest paid		(1,397)	(1,926)
Interest received		15	81
Income tax paid		(1,011)	(794)
Net cash used in operating activities		**6,123**	**(9,006)**
Cash flows from investing activities			
Purchases of property, plant and equipment		(194)	(265)
Proceeds from sale of property, plant and equipment		-	34
Purchases of intangible assets		-	(97)
Net cash used in investing activities		**(194)**	**(328)**
Cash flows from financing activities			
Proceeds from borrowings		70	14,380
Repayments of borrowings		(5,458)	(1,270)
Dividends paid to Company's shareholders	7	(500)	(2,194)
Dividends paid to Minority shareholders		-	(245)
Net cash generated from financing activities		**(5,888)**	**10,671**
Net (decrease) / increase in cash and cash equivalents		**41**	**1,337**
Cash and cash equivalents at beginning of the year		2,500	1,163
Cash and cash equivalents at end of the year		**2,541**	**2,500**

The notes on pages 7 to 9 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General principles

These interim consolidated financial statements for 6 months ended 30 June 2008 have been prepared in accordance with IAS 34, "Interim financial reporting". The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2007.

Except as described below accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in the annual consolidated financial statements for the year ended 31 December 2007.

For the consolidated financial statements for 6 month ended 30 June 2008 the management of the Company has chosen the early application of IFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14, 'Segment reporting',

2. Segment information

Geographical segments by location of customers

The Group considers geography as its only reporting segment. The range of products sold by the Group, classes of its customers and distribution channels do not represent separate business segments as they are not subject to different risks and returns. Accordingly, the Group has only one business segment.

At 30 June 2008, it is organized into three main geographical segments by location of customers:

- (1) The Baltic area relates to Latvia, Lithuania and Estonia
- (2) Central and Eastern Europe area relates to Slovakia, Slovenia, Romania and Croatia
- (3) The area of CIS and other countries primarily relate to Russia and Ukraine.

The purchasing of inventory from vendors as well as financing is managed by the Company globally. Therefore, financing items like interest income and expense, as well as cash and borrowings are managed on a global basis at corporate level. This activity is further referred to as central operation.

Therefore, the Group measures geographical segment performance, including corporate performance, based on the segment's operating

The segment results for the year ended 30 June 2008 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eleminations	Group
Third-party revenue	20,323	35,252	198,234	-	253,809
Inter-segment revenue	239,187	609	84	(239,880)	-
Revenue	**259,510**	**35,861**	**198,318**	**(239,880)**	**253,809**

The segment results for the year ended 30 June 2007 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eleminations	Group
Third-party revenue	18,301	36,981	141,629	-	196,911
Inter-segment revenue	154,221	23	47	(154,291)	-
Revenue	**172,522**	**37,004**	**141,676**	**(154,291)**	**196,911**

Segment assets consist primarily of equipment, intangible assets, inventories, trade and other receivables, cash and cash equivalents. Unallocated assets comprise principally the central operations' equipment, inventory and other receivables from non-related parties. Segment liabilities comprise operating liabilities. Unallocated liabilities comprise the central operation's borrowings and other trade payables. Capital expenditure comprises additions to equipment (Note 7) and intangible assets (Note 8).

Notes to the consolidated financial statements (continued)

2. Segment information (continued)

The segment assets and liabilities at 30 June 2008 and capital expenditure for the year then ended are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Unallocated	Group
Assets	151,093	13,792	149,621	(128,310)	186,196
Liabilities	135,578	9,419	124,122	(127,459)	141,660

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Unallocated	Group
Assets	9,336	13,912	127,823	22,564	173,635
Liabilities	3,487	9,909	107,733	9,380	130,509

3. Share capital

The total authorised and issued number of ordinary shares is 6,877 thousand shares (2007: 6,877 thousand shares) with a par value of LVL 1 per share (2007: LVL 1 per share). All issued shares are fully paid. There are no share options in any of the years presented.

4. Borrowings

	30.06.2008	31.12.2007
Non-current		
Finance lease liabilities	205	131
Other borrowings	4,568	4,568
	4,773	**4,699**
Current		
Bank borrowings	36,971	42,337
Finance lease liabilities	66	82
	37,037	**42,419**
Total borrowings	**41,810**	**47,118**

5. Income taxes

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate for 6 months ended 30 June 2008 is 6.3% (the estimated tax rate for 6 months ended 30 June 2007 was 10.1%). The difference is mainly due to differences in profitability in the Group's subsidiaries in the respective countries.

6. Earnings per share

The Company has no dilutive potential shares therefore diluted earnings per share are equal to basic earning per share.
Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. There were no treasury shares.

	Jan-Jun 2008	Jan-Jun 2007
Profit attributable to equity holders of the Company	6,207	2,972
Weighted average number of ordinary shares in issue (thousands)	6,877	6,877
Basic earnings per share (LVL per share)	0.90	0.43

7. Dividends per share

A dividend that relates to year ended 31 December 2007 of LVL 0.44 per share, amounting to a total dividend of LVL 3,000 thousand was proposed at the Annual General Meeting on 18 April 2008. During reporting period the dividends paid out amounts LVL 500 thousand.

Notes to the consolidated financial statements (continued)

8. Related party transactions

Transactions with related parties:

The transactions with related parties arise mainly from operating lease agreements. Particularly, rental services LVL 116 thousand (2007: LVL 218 thousand) were bought from an entity controlled by some of the shareholders of the Company.

The Company has entered into an agreement with related party AST BALTS for rent of warehousing and office space. The given premises are in a construction process with expected completion in stages during 2008 and 2009. In 2007 the Company has done a prepayment in the amount of LVL 248 thousand.

9. Issued guarantees and pledges

A/S DnB NORD Banka with mediation of DnB NOR Bank ASA has issued guarantee in the amount of USD 4,000 thousand in favour of INTEL INTERNATIONAL B.V. Guarantee serves as a partial security of A/S ELKO GRUPA purchases on credit to INTEL INTERNATIONAL B.V. The issued guarantee will expire in October 27' 2008.

A/S DnB NORD Banka with mediation of DnB NOR Bank ASA has issued a stand by letter of credit in the amount of USD 3,000 thousand (in July 22, 2008 enlarged to 6,000 thousand) in favour of ASUS Technology PTE LTD. The letter of credit serves as a partial security of A/S ELKO GRUPA purchases on credit to ASUS Technology PTE LTD.

A/S DnB NORD Banka with mediation of DnB NOR Bank ASA has issued a stand by letter of credit in the amount of USD 2,000 thousand in favour of ASUS Technology PTE LTD. The letter of credit serves as a partial security of A/S ELKO GRUPA purchases on credit to ASUS Technology PTE LTD.

All assets of A/S ELKO GRUPA has pledged as security in favour of A/S DnB NORD Banka.

10. Contingencies

There are no significant changes in contingent liabilities compared with December 31, 2007.

11. Subsequent events

There are no subsequent events since the last date of the reporting period, which would have a significant effect on the financial position of the Group as at 30 June 2008.

12. Seasonality

According general trends in the IT industry the biggest part of revenues is generated in 4th quarter of the year. Apart from costs directly attributable to revenues all other expenses are split evenly over the period.